

Opening Statement of Judy Marks on Behalf of Lockheed Martin Distribution Technologies to the President's Commission on the United States Postal Service

March 18, 2003

Good morning, my name is Judy Marks, and I am the President of Lockheed Martin Distribution Technologies in Owego NY. Thank you for your invitation and allowing me to present the views of a leading technology provider to the USPS and the mailing industry regarding meaningful postal reform. Our organization is a leading supplier of automation, information technology, and systems integration services and products to the USPS and major mailers. As a result of the close business ties that we have developed with the USPS over many years, we have gained a great deal of insight and experience in helping the USPS achieve their goal of quality universal service within very challenging business and cost constraints. Today I will address three broad areas of reform that we feel will allow the USPS to maximize its considerable distribution and delivery network while continuing to drive down costs and improve productivity.

The first area I would like to address this morning concerns the impact of electronic communication and the current USPS business model.

The demand for postal services has changed dramatically over the last two decades, driven primarily by the growth of electronic communication and commerce. However, the structure and operational business model employed by the USPS have not adapted to these changes. To assure the viability of the USPS, we must re-establish this resource as a commercial government enterprise enabled to modernize its operations and business model, while at the same time preserving the government's obligation of Universal Service. All citizens must continue to have full access to all mail services, but this does

not mean that the mail delivery infrastructure and offerings to provide this access must be evenly or ubiquitously apportioned. The USPS must have the flexibility to provide this access at varying levels of service based on a series of options offered to all citizens, whether from the origination point or destination point of the mail. These options could include frequency of delivery, elapsed delivery time, security and accountability, and traceability. This would allow citizens to choose, and correspondingly pay for, the level and type of service desired, while ensuring universal access to all citizens. Outside of a defined core product set, the USPS must have the ability to define the associated level of service for each offering, linking the level of service with an associated price.

The USPS must have flexibility with respect to pricing in order to balance core product responsibilities, full access to all mail services, and varying levels of service. Particularly necessary is the ability to more closely align pricing with the cost and level of service, providing discounts where appropriate and requiring additional fees as necessary for example with Sunday delivery, origination and destination point, and other value-add services. However, pricing must be reasonable for all citizens and users of mail. A method to ensure the reasonableness of these discounts and fees could clearly be determined, such as in relation to economic indicators like the Consumer Price Index. A price auditing method should be implemented as opposed to regulation via the current Postal Rate Commission's lengthy and onerous process.

Another element that is critical to enabling the USPS to provide full access to all mail services--whether they be for letters, flats, or parcels--for all citizens is its ability to compete with other mail service providers on commercial business transactions. This base

of business is a necessary component of supporting the overall national postal infrastructure. A key element of competitiveness in this business is the ability to offer volume discount pricing. Additional commercial mail volume, along with the application of advanced automation technology, would benefit all citizens by creating improved overall operating margins and lower base costs for the USPS, resulting in lower costs for all citizens.

A second area I wish to address is expanding the use of Private sector partnership, especially in the area of technology implementation. Lockheed Martin recommends additional USPS partnership with the private sector. Expanding partnership opportunities depends primarily on providing appropriate financial incentives to all parties. Recent actions by both the USPS and other posts worldwide have shown that financial rewards from cost take-out and top-line growth are available. For example, the USPS could offer competitively priced business card response services or a variety of mail-stream performance measurement analyses. These types of services are out of scope under current postal laws, but could be provided by an unrestrained private sector that can only access the physical media through the use of the in-place USPS imaging systems infrastructure.

Commercial arrangements between the USPS and the private sector should build on the collective strengths of the parties. For example, the private sector should exploit USPS dominance of home delivery sharing in the resulting commercial gains. A partnership of USPS sales and network induction counters, as well as the “last mile” delivery service with large-scale retail businesses, should be pursued. Also, resource savings from private sector

management of some USPS technology such as IT services, plant operation and network infrastructure could be realized.

A key enabling technology for cost sharing in opening up the USPS physical network is activity-based costing. Much of the information required is available today in on-line and end-of-run reports provided by current mail automation systems. Since activity-based cost measurement technology and its resulting payoff have been proven in the private sector, a partnership to introduce the necessary ingredients to the USPS and share the benefits should be equally appealing to industry.

A third area I wish to address today concerns the need for ongoing technology insertion into the USPS.

A continued stream of technology insertion into the USPS is a necessary part of postal reform with continuing capital investments in technology key to driving significant cost reductions. Capital investment and standardization of all USPS facilities and operations would result in a significant reduction of total USPS life-cycle costs and expenses. Technology investments also create the ability for the USPS to potentially expand its service beyond mail delivery and increase revenues.

Over the last ten years, the USPS has demonstrated cost savings from investment in technology and automation. Additional savings can be achieved through additional automation, recognition, information management and material handling investments. These investments would also drive toward standardization of USPS facilities and operations. In our work with the USPS we have found that variability in facilities,

operations, and processes drive increases in capital equipment cost, daily operations cost, as well as maintenance and other support costs. With total integration of processes and facilities, and an integrated network-wide open information technology infrastructure, the USPS would have the ability to better understand its cost of operations and drive additional cost reductions and efficiencies. We also strongly recommend that the USPS should update its mail piece design guidelines to further leverage its investments in technology. Standardization of the mail piece would reduce the cost of automation, maximize equipment utilization and greatly improve operating efficiencies. Discounts and user fees can be developed to allow for flexibility in mail piece design. This would provide the lowest rate for pieces that strictly fit the standardization criteria and fees for additional processing and handling costs for those who desire out-of-standard mail piece design and delivery.

The issue of technology insertion must always consider the security of the mail. Progressive technology updates to USPS security and screening systems are a key component of the USPS mission and its ability to provide safe and secure universal service. A technology insertion program must address physical security, information security, and transaction security requirements.

In addition to the three areas I have discussed today, we believe that an overarching theme of postal reform should incorporate the need to allow the USPS to operate more like a commercial business with the flexibility to modify its service offerings, reallocate funds to future technology and infrastructure investments, and to forge partnerships with private

sector firms. These actions will greatly improve prospects for the USPS to remain a viable national communications asset.

On behalf of Lockheed Martin Distribution Technologies, and myself I thank the Commission for reviewing our thoughts on meaningful postal reform. This concludes my prepared remarks, and I am happy to answer your questions.